

Message Text

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ACTION EB-08

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07

CEA-01 L-03 H-02 PA-02 DOE-15 SOE-02 AGRE-00

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R 050848Z JUN 78

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 6671

UNCLAS SECTION 1 OF 2 MANILA 09278

C O R R E C T E D C O P Y T E X T

E.O. 11652: N/A

TAGS: ETRD, BEXP, RP

SUBJECT: NATIONAL EXPORT POLICY: EFFECT OF DECLINE IN
VALUE OF US DOLLAR ON US EXPORTS TO THE PHILIPPINES

REF: (A) STATE 095673, (B) MANILA 6478

1. SUMMARY: WHILE THE US DOLLAR HAS NOT DECLINED
VIS-A-VIS THE PESO, ITS DECLINE AGAINST THE YEN AND OTHER
MAJOR CURRENCIES MAY BE HAVING A POSITIVE EFFECT ON US
SALES COMPETITIVENESS IN THE PHILIPPINES. THE COSTS OF
JAPANESE PRODUCTS AND THOSE OF OTHER COMPETITORS OF US
EXPORTERS OBVIOUSLY HAVE GONE UP, BECAUSE THE PESO IS
PEGGED TO THE DOLLAR. NEVERTHELESS, THERE IS NOT YET
MUCH EVIDENCE THAT US MANUFACTURERS ARE TAKING ADVANTAGE
OF THE NEW OPPORTUNITIES. FREQUENT INFERIOR FINANCING
PACKAGES, OCCASIONAL LACK OF AGGRESSIVENESS, AND MORE
RARELY POOR AFTER-SALES SERVICE ARE INHIBITING FACTORS.
SOME SELLERS OF US PRODUCTS IN THE AREA SEEM TO FEEL THAT
THE FAVORABLE IMPACT OF THE DOLLAR'S DEPRECIATION WILL BE
OVERCOME BY US COST OF PRODUCTION RISES INDUCED BY INFLA-
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TION THAT THE WEAKENED DOLLAR WILL GENERATE. END
SUMMARY.

2. THIS REPORT HAD ITS GENESIS IN THE EMBASSY'S EFFORT
TO ASSESS THE ACTUAL AND POTENTIAL IMPACT ON US EXPORTS
TO THE PHILIPPINES OF THE DECLINING VALUE OF THE US
DOLLAR AGAINST THE YEN AND OTHER STRONG CURRENCIES. WE

HAVE NOT YET HAD THE TIME TO DO THE REQUIRED THOROUGH-GOING ANALYSIS FOR THAT PURPOSE; BUT MEANWHILE HAVE COME UP WITH A NUMBER OF ADDITIONAL OBSERVATIONS RESPONSIVE TO REF A, TO WHICH WE HAVE ALREADY RESPONDED IN REF B.

3. SOME US PRODUCTS WERE ALREADY COMPETITIVE IN THE PHILIPPINES BEFORE THE DECLINE OF THE US DOLLAR. PUMPS AND SWIMMING POOL-EQUIPMENT ARE EXAMPLES. FURTHERMORE, FOR SOME LARGE PHILIPPINE COMPANIES PRICE IS NOT THE CONTROLLING FACTOR. BUT ACCORDING TO MR. JOSE ANGELES, PRESIDENT OF J.V. ANGELES CONSTRUCTION CORPORATION OF MANILA AND OTHER OFFICERS IN LARGE PHILIPPINE COMPANIES, US INDUSTRY HAS NOT TRIED VERY HARD TO SELL HERE. THEY ACKNOWLEDGE THAT THE GREATER PRICE COMPETITIVENESS PROBABLY WILL HELP CONSIDERABLY, BUT SEEM TO DOUBT THAT AMERICAN MANUFACTURERS WILL TAKE FULL ADVANTAGE OF THE OPPORTUNITIES. PHILIPPINE BUSINESSMEN OFTEN SAY THAT AMERICAN BUSINESS IS NOT NEARLY AS AGGRESSIVE AS JAPANESE AND EUROPEAN. OFTEN, EVEN THOUGH THE MARKET IS LARGE AND THE US COMPANIES ARE GAINING COMPETITIVE ADVANTAGE IN PRICE AS WELL AS TECHNOLOGY, THEY SEEM RELUCTANT TO ENGAGE IN EXHIBITIONS AND OTHER TRADE PROMOTIONS OVERSEAS. PHILIPPINE IMPORTERS, ESPECIALLY THE SMALL ONES, ALSO COMPLAIN THAT THE US DOES NOT USUALLY COME FORWARD WITH EXPORT FINANCING SUGGESTIONS OR PACKAGES THAT ARE AS ATTRACTIVE AS THOSE OFFERED BY COMPETITOR NATIONS.

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FOREIGN GOVERNMENT FINANCING OF MAJOR PROJECTS, ESPECIALLY BY THE JAPANESE, WILL CONTINUE TO ATTRACT MUCH BUSINESS THAT, WITH BETTER US FINANCING, WOULD GO TO US FIRMS.

4. WHILE THE DECLINE OF THE DOLLAR VIS-A-VIS THE YEN AND MAJOR EUROPEAN CURRENCIES MAY HELP OUR EXPORTERS IN COMPETITION WITH THE JAPANESE AND EUROPEANS, COMPETITION FROM OTHER COUNTRIES, ESPECIALLY TAIWAN AND KOREA, IS GROWING STRONGER AND WILL SLOW US SALES INCREASES HERE. MACHINERY FROM THESE TWO ASIAN COMPETITORS IS MAKING A CONSIDERABLE IMPACT ON THE MARKET.

5. A FEW US COMPANIES HAVE ANOTHER HANDICAP. THAT IS A SEEMING RELUCTANCE ON THEIR PART TO SET UP ADEQUATE AFTER-SALES SERVICE INCLUDING THE QUICK SUPPLY OF SPARE PARTS. MANY OTHER US FIRMS DO AN OUTSTANDING JOB ON THE AFTER-SALES EFFORT. IN THE PHILIPPINES IT SEEMS NOTEWORTHY THAT THE JAPANESE DO NOT HAVE A PARTICULARLY GOOD REPUTATION FOR LOOKING AFTER THEIR CUSTOMERS. THE BRITISH ARE KNOWN FOR TRYING HARD NOW TO OVERCOME A HISTORY OF ALMOST TOTAL NEGLECT OF THE PHILIPPINE

CUSTOMER AFTER A SALE WAS MADE.

6. PHILIPPINE SELLERS OF AMERICAN PRODUCTS GENERALLY ARE NOT JUBILANT ABOUT THE DEPRECIATION OF THE US DOLLAR. SOME MAINTAIN THAT INFLATION IN THE US IS BOUND TO BE A RESULT AND THAT THE SUBSEQUENT INCREASES IN COST OF PRODUCTION WILL WIPE OUT IN THE LONG RUN WHATEVER SHORT-TERM COMPETITIVE GAINS THE DEPRECIATION IS BRINGING. FURTHERMORE, CONFIDENCE IN THE US DOLLAR IS AN IMPORTANT INTANGIBLE TO BUYER AND SELLER ALIKE. TO THEM, THE DECLINE OF THE DOLLAR'S VALUE IS AN INNATELY NEGATIVE FACTOR, AND AGENTS AND DISTRIBUTORS HERE WOULD BE ENCOURAGED MORE BY STRONGER EFFORTS ON THE PART OF US PRINCIPLES TO SUPPORT THEM IN THE FINANCING, SALES AND UNCLASSIFIED

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INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
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R 060037Z JUN 78
FM AMEMBASSY MANILA
TO SECSTATE WASHDC 6672

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CORRECTED COPY TEXT

AFTER-SALES ASPECTS OF THEIR BUSINESS THAN BY THE DOLLAR DEPRECIATION PHENOMENON.

7. THE CENTER FOR RESEARCH AND COMMUNICATION (CRC), A PRIVATE RESEARCH COMPANY, HAS RECENTLY REPORTED THAT THE PESO-DOLLAR RATE IS BETTER (FROM THE PHILIPPINE POINT OF

VIEW) THAN THAT OF LAST YEAR; BUT IN VIEW OF THE APPRECIATION OF THE "HARD CURRENCIES" AGAINST THE DOLLAR, LOCAL EXPORTERS SELLING TO THE UNITED STATES, WHICH TAKES 36 PERCENT OF PHILIPPINE EXPORTS, ARE AUTOMATICALLY SUFFERING LOWER PROFIT RATES BECAUSE OF THE CHEAPER DOLLAR. CONVERSELY, AND OBVIOUSLY, PHILIPPINE PURCHASES FROM COUNTRIES OTHER THAN THE US (78 PERCENT OF TOTAL PHILIPPINE IMPORTS) HAVE HIGHER EFFECTIVE COSTS, ESTIMATED AT ABOUT 9 PERCENT. THE CRC WENT ON TO SAY THAT THE WEAKER THE DOLLAR AGAINST OTHER MAJOR CURRENCIES THE EASIER FOR THE PESO TO MAINTAIN EXCHANGE RATE STABILITY WITH THE DOLLAR. IF THE DOLLAR RECOVERS, HOWEVER, FOREIGN EXCHANGE MANAGEMENT MAY BECOME A PROBLEM AGAIN. MURPHY

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